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SUBMISSION TO THE

LEGISLATIVE COMMITTEE ON BILL C-70

(An Act to amend the Family Allowances Act, 1973)

BY THE

CANADIAN LABOUR CONGRESS

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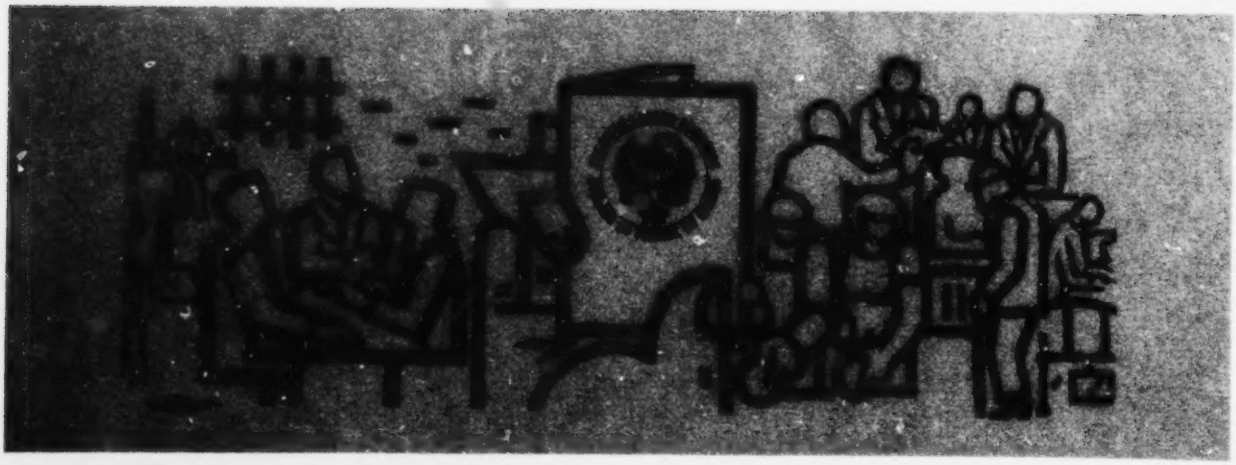
October, 1985
Ottawa, Ontario



We are pleased that the Legislative Committee that has been struck to consider Bill C-70 has afforded the Canadian Labour Congress an opportunity to present its views on the Bill. However, we wish to make it clear at the outset that we are strongly opposed to the partial de-indexing of Family Allowance benefits that is embodied in Bill C-70.

The proposal to partially de-index Family Allowance benefits is one of several interrelated proposals affecting child benefits that were included in the May 23rd Budget of the Finance Minister, Michael Wilson. The Finance Minister also proposed in his Budget that the Child Tax Credit would be partially de-indexed after 1988 and that the family income level up to which the full tax credit would be paid would be partially de-indexed after 1986. Thus, we will set our comments on Bill C-70 in the context of our views on the package of reforms to the child benefits system that were proposed in the Budget.

It is also important to note that the Budget proposals concerning child benefits were made shortly after an extensive consultation exercise based on the Consultation Paper on Child and Elderly Benefits. In our view there are important issues that must be raised not only about the Budget proposals concerning child benefits, but also about the process out of which they emerged.

In January of this year, the Minister of Health and Welfare published the Consultation Paper on Child and Elderly Benefits. In addition to the options it proposed regarding the organization of child benefits, the Consultation Paper included an important policy commitment. The Consultation Paper said that the savings that resulted from changes to individual social programs would be applied to other priorities in the social affairs envelope. Moreover, at no point did the Consultation Paper even hint at the possibility that child benefits might be partially de-indexed.

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The Consultation Paper was turned over to the Standing Committee on Health, Welfare and Social Affairs which received submissions from more than ninety organizations including the Canadian Labour Congress. Again, throughout the hearings of the Committee and its Report, the possibility of partially de-indexing child benefits was not mentioned. Indeed, as far as we are aware, the only group that proposed the partial de-indexing of child benefits was the business oriented C.D. Howe Research Institute which proposed a number of provisions found in the May 23rd Budget. Notably, however, the C.D. Howe Research Institute did not appear before the Standing Committee on Health, Welfare and Social Affairs to present its views on the Consultation Paper.

The government's policy on child benefits as enunciated in the May 23rd Budget and partially embodied in Bill C-70 would reduce overall spending on child benefits with no application of the resulting savings to other social programs. Moreover it would introduce a specific policy with regard to child benefits -- namely, partial de-indexing -- that was not suggested at all in the consultation process. The government cannot have open and meaningful consultation with Canadians while refusing to discuss the actual options that it is considering. Yet this is precisely what has happened with regard to child benefits. We are certain that we are not alone in expressing our distaste for this state of affairs which has seriously undermined the apparent willingness of the government to engage in open and meaningful consultation.

In turning to more substantive issues, we would begin by noting that the Consultation Paper discussed two alternatives to the status quo with regard to child benefits. Both alternatives were organized around the common theme that resources should be "better targeted to those most in need". More concretely, both proposals implied that a relatively greater emphasis should be placed on the Child Tax Credit as opposed to the Family Allowance.

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In our response to the Consultation Paper (a copy of which is appended) we questioned whether this re-orientation of child benefits is appropriate and we will explain below why we remain concerned with this issue. For the moment, however, it is more important to note that the child benefit proposals enunciated in the May Budget only bear a superficial resemblance to the alternatives proposed in the Consultation Paper.

The Budget proposal to partially de-index Family Allowances was coupled with two proposals relating to the Child Tax Credit. First, the amount of the Child Tax Credit would be raised from its 1985 level of $384 / child to $524 in 1988, but then would be partially de-indexed. Second, the family income level up to which the full credit would be paid would be reduced from $26,330 in 1985 to $23,500 in 1986 and then be partially de-indexed.

Superficially, this re-arrangement would appear to be a fairly straightforward case of "better targeting". However, because the partial de-indexing element in the proposal applies to both the Child Tax Credit and the Family Allowance, the real value of all key elements in the child benefits system -- including, incidentally, the child tax exemption -- will be eroded over time. If we assume, as seems reasonable, that inflation will be 3 per cent per annum or more, then twenty years in the future the following key elements in the system of child benefits will have the following values in 1985 dollars:

> Family Allowances will be $18 per month per child compared to $32 today;
>
> Child Tax Credit will be $326 per child compared to $384 today (and $480 in 1988);
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> Family income level up to which the full credit will be paid will be $13,800 compared to $26,500 today (and $22,516 in 1986).

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Clearly what we are looking at here is the total emasculation of the system of child benefits and not simply the re-orientation of the system. In twenty years, the family income level up to which the full tax credit will be available will be less than the 1983 Statistics Canada poverty line for a family of four living in rural areas ($14,107). By as early as 1990-91, the Department of Finance has estimated that the new package of child benefits will yield net savings of more than $500 million.

The Department of Finance has also estimated that by 1990-91, the Government of Canada will also be losing $1.25 billion dollars per year thanks to the proposal to exempt the first $500,000 of capital gains from taxation. Given that only 4 percent of tax filers with annual income over $50,000 claim 63 percent of all capital gains, this more costly proposal hardly qualifies as doing more for people in need. There is, to put it mildly, a certain inconsistency in the application of the government's commitment to do more for those most in need.

As was noted above, our response to the Consultation Paper on Child and Elderly benefits questioned whether a re-orientation of child benefits to those most in need was appropriate. We noted that the Consultation Paper laid so much stress on "better targeting" that it totally ignored an important objective of child benefits -- namely the objective of trying to equalize the economic situation of families that have the same level of income but different numbers of children. This objective does not relate specifically to issues of high income families versus low income families and it is an objective that is addressed in an equitable fashion through the Family Allowance program.

In our view, the Consultation Paper did a disservice to the discussion of child benefits by trying to deal with them as if their sole purpose was to redistribute income from high income families to low income families. The Consultation Paper also ignored the question whether the Child Tax Credit is the most effective expenditure program for redistributing income -- assuming that that is one's objective -- and whether the objective of redistribution can be effectively met without looking at the fairness of the tax system.

In short, it was and remains our view that the Consultation Paper raised (or avoided) as many questions about child benefits as it answered. In particular, we saw the need for a full public discussion of the degree to which child benefits should be designed to equalize the economic situation of families with the same level of income and different numbers of children. As a result our advice to the Standing Committee was that it recommend to the government that there be no reorganization of child benefits until that discussion takes place.

The necessary public discussion to which we refer still has not taken place and we remain firm in the view that there should be no change in the system of child benefits until that discussion has taken place. We are also of the view that the credibility of the earlier consultation exercise on child and elderly benefits can only be restored if the partial de-indexing proposal is dropped and if the government lives by its commitment to apply any savings that result from social program changes within the social affairs envelope.

The second of these conditions does not imply that we would be happy with any and all rearrangements of social programs within a social affairs envelope with the existing level of funding -- indeed in our earlier response to the Consultation Paper, we noted that social spending in Canada is rather modest by the standards of the industrialized world. However, if the government does not establish policy within the framework laid out in the Consultation Paper, then the earlier consultation paper loses its credibility.

As far as Bill C-70 is concerned, an amendment to the Bill that would delete Section (3) would address our concerns.

Respectfully submitted on behalf of the

CANADIAN LABOUR CONGRESS

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